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FINLAND: FOREIGN INVESTMENT TRENDS*Summary

Overseas investment by Finnish firms has grown substantially in recent years. This is primarily a result of a maturation process that has led Finnish businesses to seek technology and market shares beyond their limited domestic markets. In addition, corporate pressure to obtain returns on investment comparable to those available in foreign capital markets has led to a liberalization of the exchange regime in Finland; this, in turn, has probably contributed to an accelerating rate of overseas investment. The growing presence of Finnish subsidiaries in Western markets -- which will lead Finnish firms increasingly to apply more advanced production processes and technologies -- will bring benefits to Finland over time as these firms improve their competitiveness. As economic ties with the West expand, Finland's economic links may weaken correspondingly with the USSR.

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*This memorandum was prepared for the Honorable Rockwell A. Schnabel, US Ambassador to Finland. It was drafted by [] of the Office of European Analysis and coordinated with the Office of Global Issues and the National Intelligence Officer for Europe. Questions and comments may be addressed to [] [] Chief, West Europe Division, []

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Overseas investment by Finnish firms has grown substantially in recent years. This is primarily a result of a maturation process that has led Finnish businesses to seek technology and market shares beyond their limited domestic markets. In addition, corporate pressure to obtain returns on investment comparable to those available in foreign capital markets has led to a liberalization of the exchange regime in Finland; this, in turn, has probably contributed to an accelerating rate of overseas investment. At the end of 1984, there were over 1,400 Finnish firms with capital invested in foreign countries. Most of this investment is in Sweden, the United States, the United Kingdom, West Germany, and other EC and EFTA countries. As economic ties with the West expand, Finland's economic links may weaken correspondingly with its other major trading partner, the USSR. [redacted]

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Investment Takes Off

Finnish direct foreign investment has increased dramatically over the last decade as Finnish companies have set up subsidiaries abroad to help market their exports. The annual value of Finnish overseas direct investment increased from about \$138 million in 1981 to \$400 million in 1984. A major impetus has been the small size of the Finnish market, which virtually compels ambitious firms to seek foreign markets. In addition, the improved access to markets that followed GATT membership (1950), association with EFTA (1961), and a free trade agreement with the EC (1973) led to increased market shares for the maturing Finnish business sector. To keep and expand these markets, Finnish businesses began moving operations directly into those markets, usually by setting up sales operations. In 1983, for example, about one-fourth of total Finnish exports and more than one-half of forestry industry exports were marketed by Finnish-owned subsidiaries and associate companies. More than 40 percent of exports to the United States, France, Denmark, and Japan in 1983 were sold through Finnish-owned subsidiaries in those markets; the percentage exceeded 50 percent for exports to Britain. [redacted]

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Finnish foreign investment growth was hampered at first by restrictive domestic financial policies. Foreign exchange and credit were rationed, for example, and interest rates on deposits were kept artificially low by administrative controls. Firms found it increasingly difficult to employ their funds efficiently, especially as corporate liquidity began to build up rapidly in the late 1970s. Companies began to look for ways to circumvent the rules in order to obtain the much higher yields available in foreign capital markets. This pressure led to the

emergence of an unregulated "grey market," which was essentially a short-term money market outside the banks' balance sheets. []

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Although hostile at first to these changes in the financial markets, the Bank of Finland recognized by the early 1980s that a strong case could be made for increasing the international exposure of the Finnish economy, and it cautiously began to promote deregulation. This change of heart was crucial for the subsequent growth in foreign investment, but capital flows were not deregulated as rapidly as the domestic market. This was because the central bank feared that a more liberal foreign exchange policy would hinder its ability to carry out its exchange rate objective of maintaining an essentially fixed rate for the markkaa with respect to other currencies. A rapid increase in foreign exchange reserves--from an average of \$1.5 billion between 1979 and 1983 to \$2.7 billion in 1984 and nearly \$3.5 billion in 1985--has eased the central bank's fears about drains on reserves, however, and made it easier for the central bank to pursue its stable exchange rate policy. Major reasons for the build up in reserves included Finland's trade surplus, increased purchases by foreigners of markkaa-denominated bonds because of interest differentials, forward borrowing abroad by banks to hedge against exchange risk, and growth in foreign trade invoiced in markaas. []

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Investment In The US

Nearly 200 Finnish firms have invested in the United States, according to the Bank of Finland. Based on limited information, we estimate that the accumulated value of Finnish direct investment in the US is around \$400 million.* Just under one-half of all Finnish-owned firms in the US are sales and marketing subsidiaries of manufacturing firms such as A. Ahlstrom (machinery) and Valmet (factory automation and paper machinery).

*It is difficult to determine the precise value of Finnish investment in the United States. US Department of Commerce data, going back as far as 1974, only identify about 25 Finnish firms with investment in the United States, and for most of those firms no values are given. Moreover, the Bank of Finland lumps investment in the United States and investment in Canada together under "North America." Because the size of the Canadian economy and the value of Canadian trade with Finland is about one-tenth that of the United States, we estimate that Finnish investment in Canada is about one-tenth the value of Finnish investment in the United States. In addition, official Canadian statistics say nothing about the value of Finnish investment in Canada. []

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Less than one-third are service-oriented firms, such as Kansa General and Pohjola (insurance) and Kansallis-Osake-Pankki (KOP) (banking). Investment in manufacturing operations--accounting for only one-third to two-fifths of Finnish investment in the US--is concentrated in chemicals, forest products and paper, metals, and machinery. Finnish foreign investment--in the US as well as in Europe--is largely concentrated in countries that are important export markets, not in countries with low wages. []

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Recent developments indicate that more Finnish manufacturing firms are investing in the United States, although the number of these firms remains smaller than the number of sales and marketing firms that have invested in the United States. This is probably a result of the greater success that Finnish manufacturing firms have had in the early 1980s in breaking into US markets compared with EC markets. For example, while total sales of Finnish-owned manufacturing companies operating in the United States increased three-and-a-half times from 1981 to 1983, they only rose by 50 percent in the EC countries. This increased emphasis on expanding manufacturing operations probably reflects a Finnish perception of strong growth prospects for manufacturing firms in the US. []

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Outlook

The growing presence of Finnish subsidiaries in Western markets--which will lead Finnish firms increasingly to apply more advanced production processes and technologies--will bring benefits to Finland over time as these firms improve their competitiveness. But because a large part of Finnish foreign investment has occurred only recently--when most countries have achieved only sluggish growth--the increase in investment is not likely to translate quickly into sizable expansion of Finnish trade. If performance does, in fact, eventually meet the expectations that led to expanded foreign investment in the first place, it follows, we believe, that Finnish businesses will become increasingly self-confident. One significant consequence of this self-confidence could well be a tendency for Finnish firms to look less to the Soviet market--which now provides 6 percent of GDP--for their sales. []

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Finnish firms will be able to continue increasing their foreign investment so long as the central bank permits a liberalized exchange regime. We believe the central bank will continue to do so because of the benefits to Finland of increased trade and purchases of advanced technology. But freer capital flows--in addition to evoking union complaints about "exporting jobs"--will probably come to mean less central bank control over

monetary policy and a resulting need to restructure monetary control techniques. There is a risk that the central bank might try to use a crisis--such as extreme drains on foreign exchange reserves--as a pretext for reinstituting exchange controls, but this does not seem likely in the near future. Implementation of the remaining controls has become fairly lenient, particularly with respect to trade-related short-term flows, and the authorities are probably gaining confidence in their ability to manage Finnish monetary policy in an international environment.

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The prospect for continued Finnish investment abroad also depends partly on whether foreign firms will have similar access to Finland. Helsinki's recent approval--despite strong domestic pressure--for Otis Elevator to merge with Valmet, the second-largest elevator manufacturer in Finland, indicates that the Finnish government has come to recognize that promoting foreign investment by Finnish firms requires a policy of reciprocity--which is required anyway under OECD agreements.

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APPENDIX A: SOME EXAMPLES OF FINNISH INVESTMENT IN THE US

In one of the most recent investment projects undertaken in the US by a Finnish firm, Ahlstrom's Pyropower subsidiary agreed in January to build and operate a \$130 million co-generation power plant in Pennsylvania in a partnership with Bechtel and Ri-Corp Development. Because Finland lacks indigenous supplies of coal and oil, Pyropower has developed a process that can cleanly burn in Finnish pulp and paper mills a wide variety of fuels derived from the byproducts of production. Pyropower exemplifies the pattern common to many Finnish firms of seeking larger markets overseas. []

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Insurance and banking firms began aggressively to look abroad in the 1970s. Before moving to the US, they typically tested the waters in Europe by buying minority holdings in other European groups or by establishing European subsidiaries. In 1977, Sampo started the first of a string of Finnish insurance investments when it took a 5-percent stake in the Excess and Treaty Holding Corp. of New York. The other major Finnish insurers soon followed, and, in 1979, Pohjola acquired the first interest held by a Finnish company in the New York Insurance Exchange. By the end of 1982, Finnish companies had over 30 subsidiaries, affiliates, or representative offices involved in insurance or reinsurance in a total of 16 countries. []

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KOP and the Union Bank--Finland's two largest banks and among the 150 largest banks worldwide--moved aggressively into London and New York when the Bank of Finland first permitted banks to open branches abroad in 1984. Before 1982, the central bank had prohibited the granting of credits to foreign borrowers, and also limited the amount of lending in foreign currency by Finnish banks to domestic borrowers. Finnish banks had been forced to establish consortiums with foreign banks or foreign subsidiaries to get around these restrictions. The gradual removal of these restrictions between 1982 and 1984 has permitted Finnish banks to establish overseas branches backed by the parent banks' full capital resources. []

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APPENDIX B*: Amounts of Foreign Investment by Finnish Firms
(\$ million)

	Equity Capital	Repatriations	Equity Capital Net
1975	43	1	42
1976	28	3	25
1977	114	0.6	113.4
1978	59	0.5	58.5
1979	113	0.3	112.7
1980	114	1	113
1981	146	7	139
1982	176	3	173
1983	264	3	261
1984	397	44	353
1985	332	--	--

*Source: Bank of Finland

Appendix C: Known Finnish Subsidiaries in US and Parent Company

Parent Company	U.S. Holdings	Product/Type of Operation
A Ahlstrom Corporation	Iittala USA Elmsford, NY	Glassware
A Ahlstrom Corp.	Ahlstrom Machinery, Inc. Glens Falls, NY	Screen plates, paper industries machinery
A Ahlstrom Corp.	Ahlstrom Machinery, Inc. Norcross, GA	Regional sales office
A Ahlstrom Corp.	Ahlstrom Machinery, Inc. Milwaukee, WI	Regional sales office
A Ahlstrom Corp.	Ahlstrom Trading, Inc. Elmsford, NY	Marketing
A Ahlstrom Corp.	Pyropower Corporation San Diego, CA	Marketing of circulating fluidized bed boiler systems
A Ahlstrom Corp.	Ahlstrom Machinery, Inc. Glens Falls, NY	Screen plates, paper industries machinery
A Ahlstrom Corporation	Robin Process Management Systems Norcross, GA	Marketing
A Johnson and Company	DE Electronics Redmond, WA	Laser control alignment devices

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AmerGroup, Ltd	AmerSports, Inc. Happauge, NY	Ice-hockey sticks Protective equipment
Antti Luhtala Oy	Antti Luhtala KY Thomasville, GA 1980	Heating equipment
Ari Tuote Oy	Ari Product/North America, Inc. Thomasville, GA	Extruded plastic pipes
Ekono Oy	Elkono, Inc Bellevue, WA	Energy utilization consulting engineer
Finnish Sugar Company	Finn-Cal Products San Francisco, CA	Sucrochemicals, amino acids, and enzymes for food and pharmaceutical industries
Fiskars Oy AB	Fiskars Manufacturing, Ltd. Wausau, WI	Scissors
Forrex Oy	Efficient Logging Company Baton Rouge, LA	Forest machinery Sales and testing

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Holding Manutas Oy	Burdick Corporation Milton, WI (1983)	Petroleum coal products
Huhtamaeki Oy	General Mills Donruss Company Memphis, TN (1983)	-
Huhtamaeki Oy	Leaf Confectionary, Inc. Chicago, IL (1983)	-
Jaakko Poyry International	Payry-Bek, Inc. Birmingham, NC 1981	Insurance
Kajaani Oy	Kajaani, Inc. Atlanta, GA	Computer equipment and sales
Kansa General Insurance Co, Ltd.	Home Guaranty Insurance Corporation Richmond, VA (1980)	Insurance
Kansallis-Osake-Panke	Nordic American Banking Corporation New York, NY ()	International banking
Karl Fazer Oy AB	Fazer Chocolates, Inc. Los Angeles, CA	Candy

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Kemira Oy	Kemira, Inc.	Sales company for paint varnishes
Kone Oy	MacGregor-Navire (USA), Inc. Cranford, NJ	Cargo access equipment
Kone Oy	Armor Elevator Company, Inc. Louisville, KY	Elevators and equipment
Kone Oy	The Burdick Division Milton, WI	Electronic medical equipment
Kone Oy	KONE Instruments, Inc. Ontario, CA	Medical instruments
Kone Oy	KONE Materials Handling, Inc. Springfield, OH	Hoists, cranes, monorails
Kone Oy	MacGregor-Navire (USA) Inc. Cranford, NJ	Cargo access equipment
Kymmene Stromberg Corporation	Kymmene Paper, Inc. Elmsford, NY	Paper sales

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KYMI Kymmene Oy	Leaf River Corporation New Augusta, MS	Pulp mills
Larox, Inc.	Larox, Inc. Columbia, MD	-
Lohya Oy AB	Southern Ready Mix (AL)	-
Marimenkko Oy	Marimenkko NJ (1983)	Medical equipment
Myllykoski Oy	Madison Paper Company Madison, ME	Paper mills
Nokia Oy AB	Nokia, Inc. Atlanta, GA	Metal working
Nokia Oy AB	Stoeger Industries NJ	-
Ohokampert	Nippert Company Delaware, OH	Copper profiles Cold rolled components

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Orion-Yhtymä	Medical Technology Corporation NJ (1978)	-
Orion-Yhtymä	Medical Technology Corporation NJ (1978)	-
Outokumpu Oy	Outokumpu Metals USA, Inc. Dearborn, MI	Mining Smelting of semimanufactured copper products
Outokumpu Oy	Outokumpu Engineering, Inc. Denver, CO	Equipment and engineering for mining, mineral processing, and metallurgy industries
Outokumpu Oy	Outokumpu Engineering, Inc. Bethesda, MD	-
Partek	Western Partek, Ltd. Atlanta, GA	Insulation material
Purmo-Tuote	Seymour Smith and Sons, Inc. Oakville, CT	Hand saws and saw blades
Raisio Tehtaat	Raisio, Inc. Madison, WI	Sales of chemical products

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Rake Oy	Form of Finlandia (1979)	-
Raute Oy	Raute Oy Marietta, GA	Machinery for plywood and panel industry
Ruhimaen Lasi Oy	Langsam-Billig Company Brooklyn, NY	Iron and steel foundries
Rukka-Products AB	Rukka USA, Inc. Richmond, VA	Raincoats and other waterproof outer garments
Sanoma Oy	Crafton Graphics, Company New York, NY	Lithographic services
Suunto Oy	Sea Quest, Inc. Carlsbad, CA	Manufactures and distributes professional diving equipment and marine compasses
Tampella, Ltd	Tamrock Corporation Elmsford, NY	Rotary percussive drills for mining and construction
Union Bank	TVW Paper Machines, Inc. Atlanta, GA	Paper machine sales

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Vaisala Oy	Vaisala, Inc. Woburn, MA	Meteorological instruments
Valmet Oy	Intec Engineering Houston, TX	Services for shipbuilders
Valmet Oy	Valmet Automation Tucker, GA/Redmond, WA	Marketing of process instrumentation
Valmet Oy	Valmet Automation Portland, ME	Manufacturing of process instrumentation
Valmet Oy	Kajaani Inc., Automation Tucker, GA	Process automation systems
Valmet Oy	Robinton Products, Inc. Sunnyvale, CA	Electric energy metering systems
Valmet Oy	Valmet, Inc., Intermodal Systems Div Elmsford, NY	Transportation equipment and sporting goods
Valvillia Oy	Finnish United Textiles, Inc. New York, NY	Fabrics, yarn

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Wallace Oy	Gelman Instrument Company Ann Arbor, MI	Electronic components and accessories
Wartsila Oy AB	Appleton Machine Company Appleton, WI	Machinery
Wartsila Oy AB	Colton-Wartila, Inc. Colton, CA	Vitreous china plumbing fixtures
Wartsila Oy AB	Watsila, Inc. Niles, IL	Dinnerware, glassware, cookware, high-security locks

Subject: Finland Foreign Investment Trends

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